

Legislative Audit Division

State of Montana



Report to the Legislature

January 2004

Financial-Compliance Audit For the Two Fiscal Years Ended June 30, 2003

Department of Commerce

This report contains four recommendations to the Department of Commerce. The recommendations relate to:

- ▶ The Research and Commercialization Technology Program expenditure misclassifications and accruals.
- ▶ The Internal Service fund fees not being commensurate with costs.
- ▶ Internal controls over the Moderate-Rehabilitation and Montana Home Investment Partnership programs not being consistently applied to program expenditures.

**Direct comments/inquiries to:
Legislative Audit Division
Room 160, State Capitol
PO Box 201705
Helena MT 59620-1705**

03-16

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Government Auditing Standards, the Single Audit Act Amendments of 1996 and OMB Circular A-133 require the auditor to issue certain financial, internal control, and compliance reports. This individual agency audit report is not intended to comply with these reporting requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 2003, will be issued by March 31, 2004. The Single Audit Report for the two fiscal years ended June 30, 2001, was issued on March 26, 2002. Copies of the Single Audit Report can be obtained by contacting:

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State Capitol
Helena MT 59620
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Legislative Audit Division
Room 160, State Capitol
PO Box 201705
Helena MT 59620-1705

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LEGISLATIVE AUDIT DIVISION

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Tori Hunthausen, IS Audit & Operations
James Gillett, Financial-Compliance Audit

January 2004

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report on the Department of Commerce's financial activity and compliance with state law and policy, and federal regulation for fiscal years 2001-02 and 2002-03. The report contains four recommendations related to the department's compliance with state law, state accounting policy and federal regulations.

The department's written response to the audit recommendations is included in the back of the audit report. We thank the director and his staff for their cooperation and assistance throughout the audit.

Respectfully submitted,

Signature on File

Scott A. Seacat
Legislative Auditor

Legislative Audit Division

Financial-Compliance Audit

For the Two Fiscal Years Ended June 30, 2003

Department of Commerce

Members of the audit staff involved in this audit were Pearl Allen, Melissa Heinert, Cindy S. Jorgenson, Brenda Kedish, Angie Lang, Emlyn Neuman-Javornik, and Tiowna Sherrill.

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Appointed and Administrative Officials

Department of Commerce

Mark Simonich, Director

Marty Tuttle, Chief Legal Counsel

Barb Charlton, Division Administrator, Management Services Division

Andy Poole, Division Administrator, Business Resources Division

Newell Anderson, Division Administrator, Community Development Division

Betsy Baumgart, Division Administrator, Montana Promotion Division

Bruce Brensdal, Division Administrator, Housing Division

Carroll South, Executive Director, Board of Investments

Michelle Barstad, Executive Director, Montana Facility Finance Authority

Dave Desch, Executive Director, Research and Commercialization Technology

Report Summary

Department of Commerce

This audit report is the result of our financial-compliance audit of the Department of Commerce (department) for the two fiscal years ended June 30, 2003. We issued an unqualified opinion on the financial schedules contained in this report. This means the reader may rely on the presented financial information and the supporting data on the accounting system.

The previous audit report contained six recommendations, of which three remain applicable to the department. The department partially implemented the three recommendations still applicable. These recommendations are discussed again on page 10.

This report contains four recommendations concerning the department's recording of financial activity. Two of the recommendations relate to the Research & Commercialization Program, and the Internal Service Funds working capital requirements. The report also addresses controls over the HOME and Moderate-Rehabilitation programs.

The listing below serves as a means of summarizing the recommendations contained in the report, the department's response thereto, and a reference to the supporting comments.

Recommendation #1

We recommend the department monitor to ensure the financial activity in the Research and Commercialization Program is recorded in accordance with state law.Page 8

Department Response: Concur. See page B-3

Report Summary

Recommendation #2

We recommend the department:

- A. Establish fees commensurate with costs in accordance with section 17-8-101, MCA; and
- B. Properly account for financial activity recorded in the Central Services Division Internal Service Fund.Page 10

Department Response: Concur. See page B-3

Recommendation #3

We recommend the department

- A. Establish controls in the Moderate-Rehabilitation Program to ensure amounts reimbursed to property owners are properly calculated and paid.
- B. Seek reimbursement for the \$1,117 overpayment.Page 11

Department Response: Concur. See page B-4

Recommendation #4

We recommend the department continue to improve the implementation of internal controls to ensure subgrantee compliance with federal regulations applicable to the HOME Program.....Page 12

Department Response: Concur. See page B-4

Introduction and Background

Introduction

We performed a financial-compliance audit of the Department of Commerce (department) for the two fiscal years ended June 30, 2003. The accompanying financial schedules include activity that is audited separately by us. These audits are the Board of Housing (audit reports 03-07, 02-07), the Board of Investments (audit reports 03-03, 02-03), and the Montana Facility Finance Authority (audit report 02-26). These reports are available on request.

The objectives of this audit were to:

1. Determine whether the department complied with applicable state and federal laws and regulations.
2. Make recommendations for improvement of management and internal controls.
3. Determine whether the department's financial schedules for the two fiscal years ended June 30, 2003, present fairly the results of operations.
4. Determine the status of prior audit recommendations.

This audit report contains four recommendations intended to improve the department's compliance with state law, state policy and federal regulations. In accordance with section 5-13-307, MCA, we have disclosed the cost, if significant, of implementing these recommendations.

In accordance with section 17-8-101, MCA, we reviewed the Internal Service Funds fees, charges for services and fund equity balances. Based upon our review, the department is not in compliance with this law. This issue is discussed beginning on page 8.

Background

The Department of Commerce is responsible for encouraging and promoting economic and community development. Chapter 483, Laws of 2001, reorganized the Department of Commerce effective July 1, 2001. The Montana State Lottery, Banking and Financial Institutions Division, Local Government Services Bureau, and Consumer Affairs Office moved to the Department of

Introduction and Background

Administration. The Department of Labor and Industry absorbed the Professional and Occupational Licensing Division, Weights and Measures Bureau, and Building Codes Division. The Board of Horse Racing moved to the Department of Livestock. The department now consists of five divisions and several entities attached to the department for administrative purposes. The Board of Housing, Montana Facility Finance Authority, Board of Research and Commercialization Technology, Board of Investments, Coal Board, and Hard Rock Mining Impact Board are administratively attached to the department. The following is a description of the various divisions and entities comprising the department.

Director's Office/Management Services Division - consists of two programs. The Director's Office administers the department and its divisions. It provides the department with executive, administrative, legal, and policy guidance. The Management Services Division provides internal support to all department divisions. Services provided include budgeting, accounting, purchasing, contracting, personnel administration, payroll, and training. The division also provides analysis, development, maintenance, and supervision of department data processing systems and hardware. The division is budgeted for 17 FTE.

Montana Promotion Division - is responsible for promoting a positive image of the state through advertising, publicity and international and domestic group travel, as well as printing and distribution of publications and marketing to film production companies. The division is budgeted for 27 FTE.

Business Resources Division - is comprised of programs designed to improve and enhance Montana's economic and business climate, assist businesses and communities in achieving economic prosperity, and enhance the economic base of Montana through business creation, expansion, and retention efforts. The division is budgeted for 28.5 FTE.

Community Development Division - works with federal, state, and local governments and the private sector in areas of community development. The Division provides financial and technical assistance to Montana communities, local elected officials and staff, nonprofit organizations, private sector developers and consultants, and private citizens through three primary programs. These include the Community Technical Assistance Program (CTAP), Community Development Block Grant Program (CDBG), and Treasure State

Introduction and Background

Endowment Program (TSEP). The Coal Board and the Hard Rock Mining Impact Board and their respective operations are also administered in this Division. The division is budgeted for 13 FTE.

Montana Facility Finance Authority - helps eligible institutions access the tax-exempt bond market. The program issues tax-exempt bonds for eligible facilities at interest rates significantly below those which would be available at taxable bond rates. Eligible facilities include, but are not limited to, acute care hospitals, nursing homes, assisted living facilities, retirement facilities, outpatient centers, homes for persons with developmental or mental disabilities, chemical dependency centers, and pre-release centers. The Authority is budgeted for 2 FTE.

Board of Investments - has the sole authority to invest state funds in accordance with the Montana Constitution and statutory requirements. The board manages seven investment portfolios: 1) the All Other Funds portfolio; 2) Montana Domestic Equity Pool; 3) Short-Term Investment Pool; 4) Trust Funds Bond Pool; 5) Retirement Funds Bond Pool; 6) Montana International Equity Pool; and 7) Montana Private Equity Pool. The board also administers several programs in the Enterprise Fund which issue bonds for the purpose of assisting local governments, cities, and school districts, or to provide funds to improve the state's economy. The Board is budgeted for 34 FTE.

Board of Research and Commercialization Technology - created to provide a predictable and stable source of funding for research and commercialization projects; expand and strengthen research efforts for the state's basic industries to increase their economic impact on the state's economy; and expand research efforts into areas beyond the scope of the state's basic industries. The Board is budgeted for 2 FTE.

Housing Division - is responsible for the federal Section 8 Housing Programs which provide funding for decent housing to eligible low-income families and individuals. The Montana Home Investment Partnership Program (HOME) provides funds to strengthen public/private partnerships to provide more affordable housing. The Board of Housing helps provide decent, safe, sanitary, and affordable housing to lower income individuals and families. Board of Housing moneys are made available through issuance of revenue and general obligation bonds. The division is budgeted for 45 FTE.

The 58th Legislative Session further reorganized the department effective July 1, 2003. Chapter 485, Laws of 2003, administratively

Introduction and Background

attaches the Montana Heritage Preservation & Development Commission (Commission) to the department. Previously, the Commission was administratively attached to the Montana Historical Society. The Commission is responsible for management of certain state owned historic properties located at Virginia City, Nevada City, and Reeder's Alley.

Chapter 478, Laws of 2003, authorizes the department to contract with a nonprofit corporation for the purposes of carrying out the responsibilities delegated to the Developmental Disabilities Planning & Advisory Council (Council). The Council is an advisory group appointed by the Governor working to provide increased independence, integration and productivity for persons with developmental disabilities. Prior to July 1, 2003, the Council was administratively attached to the Department of Public Health & Human Services.

The 58th Legislative Session chose to discontinue funding for the CTAP within the Community Development Division. CTAP operations ceased on July 1, 2003.

Prior Audit Recommendations

We performed the prior audit of the department for the two fiscal years ended June 30, 2001. The report contained six recommendations. Three of the recommendations no longer apply to the department due to the reorganization mandated by the 2001 legislature. Those recommendations no longer applicable to the department have been followed up on during our audits of the Department of Labor (03-24) and the Department of Administration (03-15). The three recommendations remaining were all partially implemented by the department.

The recommendations partially implemented suggested the department establish controls to ensure only costs allowable under federal regulations are charged to the HOME and Section 8 programs and to ensure adequate documentation existed for administrative costs submitted for payment by grantees. We found staff have copies of the applicable federal regulations and utilize these in

Introduction and Background

determining whether costs they review are allowable. However, they still do not have adequate controls in place to ensure only costs allowable under federal regulations are charged and that adequate documentation exists. The recommendations are discussed beginning on page 10.

Findings and Recommendations

Propriety of Financial Information

State law requires the Department of Commerce (department) to input all necessary transactions before the end of the fiscal year to present the receipt, use, and disposition of all money and property, for which it is accountable, in accordance with generally accepted accounting principles. The one exception to this is that the department is required to record certain encumbrances as expenditures and liabilities, which are commonly referred to as “A” accruals. The Department of Administration establishes state accounting policy to implement this law. During the audit, we reviewed the department’s financial transactions for compliance with state law and accounting policy. The following sections describe instances where the state’s accounting records are incomplete or inaccurate.

Board of Research & Commercialization Technology

Chapter 563, Laws of 1999, established the Board of Research & Commercialization Technology (Board) to provide a predictable and stable source of funding for research and commercialization projects to be conducted at research and commercialization centers in Montana. The purpose of the program is to encourage economic development through investment in research projects that have a clear path to commercialization. A portion of the interest income earned by the Coal Severance Tax Permanent Fund is allocated to the Board for this purpose. The Board establishes contracts with the research and commercialization centers and disburses funds to these organizations as research projects are completed.

Chapter 563, Laws of 1999, directed Board activity be recorded in an Expendable Trust Fund. Chapter 34, Laws of 2001, reclassified this program to a State Special Revenue Fund in order to implement Governmental Accounting Standards Board (GASB) Statement No. 34. Department personnel were unaware of the change. Under state law, Expendable Trust Fund expenditures do not require an appropriation, but State Special Revenue Fund expenditures are required to have an appropriation. We noted this reclassification caused disbursements from the State Special Revenue Fund to research organizations to be recorded as nonbudgeted rather than

Findings and Recommendations

budgeted expenditures in fiscal year 2001-02. The state's accounting records did not reflect the program's statutory appropriation authority provided by state law. Department personnel, unaware of the fund structure change previously discussed, did not transfer the Board activity to the State Special Revenue Fund, as required by law, until fiscal year 2002-03. Because of this the Nonbudgeted Expenditures & Transfers Out are overstated by \$1,469,347 in fiscal year 2001-02 in the State Special Revenue Fund.

The Board enters into contracts with grantees for one year; many contracts have a renewal option for an additional year. According to department personnel, the second year of funding is not an obligation of the state to the grantee. At the end of fiscal year 2002-03, the department accrued an amount equal to both the unspent portion of the first year of funding plus the amount of the renewal period. This resulted in the inappropriate accrual of expenditures of \$342,587 in the Research & Commercialization Technology Program at the end of fiscal year 2002-03.

Recommendation #1

We recommend the department monitor to ensure the financial activity in the Research and Commercialization Program is recorded in accordance with state law.

Internal Service Fund

The department's accounting structure includes two internal service funds. These funds, the Centralized Services Division (CSD) and the Investment Division (ID), are used to account for the financing of goods and services provided to other divisions of the department, state agencies, and local governments. These funds are intended to operate similar to private business where the cost of goods and services are to be recovered through user charges.

Section 17-8-101(6), MCA, states, "Fees and charges for services deposited in the internal service fund type must be based upon commensurate costs." During our audit we reviewed the two Internal Service Funds to determine the reasonableness of fund

Findings and Recommendations

equity balances and to determine whether fees were commensurate with costs. State policy recommends internal services funds maintain a 60-day working capital balance. We noted that CSD exceeded this 60-day guidance in fiscal years 2001-02 and 2002-03, and the ID exceeded the 60-day guidance in fiscal year 2002-03. The CSD working capital exceeded the allowable amount by \$213,783 or 80 days at the end of fiscal year 2001-02 and by \$321,571 or 78 days at the end of fiscal year 2002-03. The ID working capital exceeded the allowable amount by \$374,093 or 52 days at the end of fiscal year 2002-03. Fees set by the legislature are the maximum amount the department can charge. The department is allowed to reduce rates to ensure the rates are commensurate with costs.

The ID working capital excess, according to department personnel, was caused by a one-time transfer-in that was made in lieu of raising fees charged to users.

According to department personnel, the fees charged to users of the CSD function were established based on the department losing one-third of its programs when in actuality one-half of the department's programs were transferred to other departments by the 2001 Legislature.

At the beginning of each fiscal year, an entry is made to move the warrant writer and system maintenance costs appropriated to each individual division to the CSD Internal Service Fund. At the beginning of the biennium, an entry is made to move appropriated audit costs to the CSD Internal Service Fund. When each annual and biennial entry is made, an expenditure is recognized in the appropriated fund and a corresponding entry is made to the Property Held in Trust account (PHIT) in the Internal Service Fund. This activity is not PHIT because the department is not acting in a fiduciary capacity.

Additionally, the PHIT account had balances of \$32,344 and \$32,003 at the end of fiscal years 2001-02 and 2002-03, respectively. These

Findings and Recommendations

amounts reflect expenditures that had been charged to the department's divisions but had not actually been incurred by fiscal year-end.

Recommendation #2

We recommend the department:

- A. Establish fees commensurate with costs in accordance with section 17-8-101, MCA; and**
- B. Properly account for financial activity recorded in the Central Services Division Internal Service Fund.**

Housing and Urban Development Programs

The department is responsible for the administration of two Housing and Urban Development (HUD) grant programs. These grants include the Section 8 Moderate-Rehabilitation (Mod-Rehab) and the Montana HOME Investment Partnership Program (HOME).

Section 8 Moderate-Rehabilitation (Mod-Rehab) Program

Under the Mod-Rehab Program a property owner can receive reimbursement for certain costs. These costs include reimbursements for tenant-caused damage to property or for unit vacancy. The unit vacancy reimbursement can be made for up to a 60-day period depending upon when the tenant moved and when the unit was again rented. Additionally, if a tenant fails to provide a 30-day notice of vacancy, the tenant then becomes liable for the vacancy amount claimed by the property owner.

We tested a sample of claims filed for tenant damage or unit vacancy. Of the 19 sample items selected, six files contained errors. Four of the sample items contained errors in the calculation of the reimbursement amount to property owners; the other two contained incorrect determinations of liability based on tenant vacancy notices. One of the six files contained an additional error where a property owner was overpaid by \$1,117. Although a note had been placed in the file detailing this overpayment; the department failed to collect this amount from the property owner.

Recommendation #3

We recommend the department:

- A. Establish controls in the Moderate-Rehabilitation Program to ensure amounts reimbursed to property owners are properly calculated and paid.**
- B. Seek reimbursement for the \$1,117 overpayment.**

Montana Home Investment Partnership Program (HOME)

The HOME Program grants money to local governments and to Community Housing Development Organization recipients to expand the supply of affordable housing, particularly for low-and very low-income individuals. The department's federal expenditures for this program were approximately \$3.3 million and \$4 million in fiscal years 2001-02 and 2002-03, respectively. When the Montana HOME Program grants this money out to the subrecipients, the program is responsible for ensuring the subrecipients comply with the federal laws and regulations related to the grant.

In our prior audit, we tested the department's compliance with federal regulations as required by Office of Management and Budget Circular A-133. Federal regulations require that entities receiving federal awards establish and maintain internal controls designed to reasonably ensure compliance with federal laws, regulations, and program requirements. Our previous audit noted the department did not have adequate internal controls to ensure the department complied with federal regulations related to monitoring of grantee use of program income, administrative expenditures, and required documentation.

During this audit, we have observed that the department has adopted internal controls related to grantee use of program income and required documentation for administrative and planning costs. However, when we reviewed a sample of four HOME Program files, we noted that two files did not contain the required support for

Findings and Recommendations

administrative expenditures. In order for internal controls to be effective, they must be applied to all subgrantee files.

Recommendation #4

We recommend the department continue to improve the implementation of internal controls to ensure subgrantee compliance with federal regulations applicable to the HOME Program.

Independent Auditor's Report & Department Financial Schedules

LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor
John W. Northey, Legal Counsel



Deputy Legislative Auditors:
Jim Pellegrini, Performance Audit
Tori Hunthausen, IS Audit & Operations
James Gillett, Financial-Compliance Audit

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying Schedule of Changes in Fund Balances for the fiscal year ended June 30, 2003, Schedule of Changes in Fund Balances & Property Held in Trust for the fiscal year ended June 30, 2002, and the Schedules of Total Revenues & Transfers-In and Schedules of Total Expenditures & Transfers-Out for each of the fiscal years ended June 30, 2002, and 2003, of the Montana Department of Commerce. The information contained in these financial schedules is the responsibility of the department's management. Our responsibility is to express an opinion on these financial schedules based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in note 1, the financial schedules are presented on a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The schedules are not intended to be a complete presentation and disclosure of the department's assets, liabilities and cash flows.

In our opinion the financial schedules referred to above present fairly, in all material respects, the results of operations and changes in fund balances and property held in trust of the Montana Department of Commerce for each of the fiscal years ended June 30, 2002, and 2003, in conformity with the basis of accounting described in note 1.

Respectfully submitted,

Signature on File

James Gillett, CPA
Deputy Legislative Auditor

October 2, 2003

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DEPARTMENT OF COMMERCE
SCHEDULE OF CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	<u>General Fund</u>	<u>State Special Revenue Fund</u>	<u>Federal Special Revenue Fund</u>	<u>Enterprise Fund</u>	<u>Internal Service Fund</u>	<u>Investment Trust Fund</u>
FUND BALANCE: July 1, 2002	\$ <u>(2,333,445)</u>	\$ <u>8,938,135</u>	\$ <u>3,746,224</u>	\$ <u>126,946,722</u>	\$ <u>454,730</u>	\$ <u>761,215,876</u>
ADDITIONS						
Budgeted Revenues & Transfers-In	21,146	925,870	46,579,180	3,268,428	3,977,907	9,645,466
NonBudgeted Revenues & Transfers-In	1,307	3,298,300	100	53,280,298	297,291	1,089,589,743
Prior Year Revenues & Transfers-In Adjustments			375,078	24,428		
Direct Entries to Fund Balance	<u>6,335,571</u>	<u>13,608,009</u>	<u>(68,036)</u>	<u>(8,990)</u>	<u>(41,224)</u>	
Total Additions	<u>6,358,024</u>	<u>17,832,179</u>	<u>46,886,322</u>	<u>56,564,164</u>	<u>4,233,974</u>	<u>1,099,235,209</u>
REDUCTIONS						
Budgeted Expenditures & Transfers-Out	2,280,284	31,288,158	46,695,183	47,625,888	3,579,115	
NonBudgeted Expenditures & Transfers-Out	3,165,000	100,075	21,433	1,328,137	435,414	1,195,880,124
Prior Year Expenditures & Transfers-Out Adjustments	<u>(128,647)</u>	<u>(754,820)</u>	<u>8,649</u>	<u>(127,331)</u>	<u>(410,581)</u>	
Total Reductions	<u>5,316,637</u>	<u>30,633,413</u>	<u>46,725,265</u>	<u>48,826,694</u>	<u>3,603,948</u>	<u>1,195,880,124</u>
FUND BALANCE: June 30, 2003	\$ <u><u>(1,292,058)</u></u>	\$ <u><u>(3,863,099)</u></u>	\$ <u><u>3,907,281</u></u>	\$ <u><u>134,684,192</u></u>	\$ <u><u>1,084,756</u></u>	\$ <u><u>664,570,961</u></u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

DEPARTMENT OF COMMERCE
SCHEDULE OF CHANGES IN FUND BALANCES & PROPERTY HELD IN TRUST
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

	<u>General Fund</u>	<u>State Special Revenue Fund</u>	<u>Federal Special Revenue Fund</u>	<u>Enterprise Fund</u>	<u>Internal Service Fund</u>	<u>Agency Fund</u>	<u>Investment Trust Fund</u>	<u>Permanent Fund</u>
FUND BALANCE: July 1, 2001	\$ 1,518,334	\$ 5,059,186	\$ 5,010,297	\$ 120,284,238	\$ 181,481	\$ (249)	\$ 768,239,670	\$ 299,549
PROPERTY HELD IN TRUST: July 1, 2001						292,568		
ADDITIONS								
Budgeted Revenues & Transfers-In	29,585	1,072,936	39,649,606	1,827,137	3,945,581		21,722,177	
NonBudgeted Revenues & Transfers-In	2,566	5,543,152	314	54,885,046	40		1,086,130,697	
Prior Year Revenues & Transfers-In Adjustments		(58,417)	(92,462)					
Direct Entries to Fund Balance	6,760,104	8,400,291	6	(581,433)	(46,057)	249		(299,549)
Additions to Property Held in Trust						36		
Total Additions	<u>6,792,255</u>	<u>14,957,962</u>	<u>39,557,464</u>	<u>56,130,750</u>	<u>3,899,564</u>	<u>285</u>	<u>1,107,852,874</u>	<u>(299,549)</u>
REDUCTIONS								
Budgeted Expenditures & Transfers-Out	7,714,392	14,046,332	40,113,332	49,060,105	3,622,206			
NonBudgeted Expenditures & Transfers-Out		1,788,288	369,531	(4,060,254)	(6,992)		1,114,876,668	
Prior Year Expenditures & Transfers-Out Adjustments	2,929,642	(4,755,607)	338,674	4,468,415	11,101			
Reductions in Property Held in Trust						292,604		
Total Reductions	<u>10,644,034</u>	<u>11,079,013</u>	<u>40,821,537</u>	<u>49,468,266</u>	<u>3,626,315</u>	<u>292,604</u>	<u>1,114,876,668</u>	
FUND BALANCE: June 30, 2002	\$ <u>(2,333,445)</u>	\$ <u>8,938,135</u>	\$ <u>3,746,224</u>	\$ <u>126,946,722</u>	\$ <u>454,730</u>		\$ <u>761,215,876</u>	\$ <u>0</u>
PROPERTY HELD IN TRUST: June 30, 2002						\$ <u>0</u>		

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

DEPARTMENT OF COMMERCE
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Internal Service Fund	Investment Trust Fund	
TOTAL REVENUES & TRANSFERS-IN BY CLASS							
Taxes	\$ 1,283			\$ 322			\$
Charges for Services	21,170	\$ 216	\$ 100	549,646	\$ 3,712,475		
Investment Earnings		286,046	66,567	55,772,781		\$ 9,645,476	
Sale of Documents, Merchandise and Property		285					
Contributions and Premiums						1,089,589,733	
Miscellaneous				9,550			
Grants, Contracts, Donations and Abandonments		669,807		1,500			
Other Financing Sources		3,265,000			297,266		
Federal		2,816	46,887,691	239,355			
Federal Indirect Cost Recoveries					265,457		
Total Revenues & Transfers-In	22,453	4,224,170	46,954,358	56,573,154	4,275,198	1,099,235,209	
Less: Nonbudgeted Revenues & Transfers-In	1,307	3,298,300	100	53,280,298	297,291	1,089,589,743	
Prior Year Revenues & Transfers-In Adjustments			375,078	24,428			
Actual Budgeted Revenues & Transfers-In	21,146	925,870	46,579,180	3,268,428	3,977,907	9,645,466	
Estimated Revenues & Transfers-In	6,323,150	1,444,635	128,493,770	50,163,895	3,551,997		
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (6,302,004)	\$ (518,765)	\$ (81,914,590)	\$ (46,895,467)	\$ 425,910	\$ 9,645,466	\$
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS							
Charges for Services	\$ (5,854)	\$ (10,694)		\$ (231,947)	\$ 259,663		\$
Investment Earnings		(166,786)	\$ (805,279)	(46,904,840)		\$ 9,645,466	
Fines and Forfeits	(30,000)						
Sale of Documents, Merchandise and Property	(150)	(12,215)		(600)	(200)		
Miscellaneous				9,550			
Grants, Contracts, Donations and Abandonments		(349,876)		(6,500)			
Other Financing Sources	(6,266,000)	17,990		(485)	(10)		
Federal		2,816	(81,109,311)	239,355			
Federal Indirect Cost Recoveries					166,457		
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (6,302,004)	\$ (518,765)	\$ (81,914,590)	\$ (46,895,467)	\$ 425,910	\$ 9,645,466	\$

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A.

DEPARTMENT OF COMMERCE
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Internal Service Fund	Investment Trust Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS							
Taxes	\$ 2,499						\$ 2,499
Charges for Services	29,627	\$ 91,635	\$ 138	\$ 507,032	\$ 3,712,610		4,341,042
Investment Earnings		402,141	124,890	55,960,842		\$ 21,763,324	78,251,197
Sale of Documents, Merchandise and Property		296					296
Contributions and Premiums						1,086,089,550	1,086,089,550
Miscellaneous	25			3,889			3,914
Grants, Contracts, Donations and Abandonments		613,599	2,000	280			615,879
Other Financing Sources		5,450,000					5,450,000
Federal			39,430,430	240,140			39,670,570
Federal Indirect Cost Recoveries					233,011		233,011
Total Revenues & Transfers-In	<u>32,151</u>	<u>6,557,671</u>	<u>39,557,458</u>	<u>56,712,183</u>	<u>3,945,621</u>	<u>1,107,852,874</u>	<u>1,214,657,958</u>
Less: Nonbudgeted Revenues & Transfers-In	2,566	5,543,152	314	54,885,046	40	1,086,130,697	1,146,561,815
Prior Year Revenues & Transfers-In Adjustments		(58,417)	(92,462)				(150,879)
Actual Budgeted Revenues & Transfers-In	<u>29,585</u>	<u>1,072,936</u>	<u>39,649,606</u>	<u>1,827,137</u>	<u>3,945,581</u>	<u>21,722,177</u>	<u>68,247,022</u>
Estimated Revenues & Transfers-In	6,221,150	1,564,635	117,479,311	50,163,895	3,607,027		179,036,018
Budgeted Revenues & Transfers-In Over (Under) Estimated	<u>\$ (6,191,565)</u>	<u>\$ (491,699)</u>	<u>\$ (77,829,705)</u>	<u>\$ (48,336,758)</u>	<u>\$ 338,554</u>	<u>\$ 21,722,177</u>	<u>\$ (110,788,996)</u>
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS							
Charges for Services	\$ 2,560	\$ 80,760		\$ (249,569)	\$ 204,754		\$ 38,505
Investment Earnings		(151,544)	\$ (799,997)	(48,322,133)		\$ 21,722,177	(27,551,497)
Fines and Forfeits	(30,000)						(30,000)
Sale of Documents, Merchandise and Property	(150)	(12,204)		(600)	(200)		(13,154)
Miscellaneous	25			3,889			3,914
Grants, Contracts, Donations and Abandonments		(326,701)	2,000	(8,000)			(332,701)
Other Financing Sources	(6,164,000)	(82,010)		(485)	(10)		(6,246,505)
Federal			(77,031,708)	240,140			(76,791,568)
Federal Indirect Cost Recoveries					134,010		134,010
Budgeted Revenues & Transfers-In Over (Under) Estimated	<u>\$ (6,191,565)</u>	<u>\$ (491,699)</u>	<u>\$ (77,829,705)</u>	<u>\$ (48,336,758)</u>	<u>\$ 338,554</u>	<u>\$ 21,722,177</u>	<u>\$ (110,788,996)</u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

DEPARTMENT OF COMMERCE
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

PROGRAM (SUBCLASS) EXPENDITURES & TRANSFERS-OUT	BOARD OF INVESTMENTS	BUSINESS RESOURCES DIVISION	COMMUNITY DEVELOPMENT DIVISION	DIRECTOR/ MANAGEMENT SERVICES	FACILITY FINANCE AUTHORITY	HOUSING DIVISION	MONTANA PROMOTION DIVISION	RESEARCH & COMMERCIALIZATION	Total
Personal Services									
Salaries	\$ 1,663,967	\$ 1,057,294	\$ 638,181	\$ 673,219	\$ 89,230	\$ 1,401,618	\$ 876,020	\$ 69,912	\$ 6,469,441
Other Compensation	9,750		1,850		2,950	10,650		1,300	26,500
Employee Benefits	377,253	271,698	155,390	171,734	20,370	392,628	241,639	19,034	1,649,746
Personal Services-Other	15,722			(14,435)	3,787	9,445			14,519
Total	<u>2,066,692</u>	<u>1,328,992</u>	<u>795,421</u>	<u>830,518</u>	<u>116,337</u>	<u>1,814,341</u>	<u>1,117,659</u>	<u>90,246</u>	<u>8,160,206</u>
Operating Expenses									
Other Services	214,338	1,036,181	45,282	28,402	44,119	2,995,331	1,802,272	4,144	6,170,069
Supplies & Materials	41,961	100,577	11,291	14,399	1,479	75,668	128,003	1,458	374,836
Communications	32,769	65,374	17,728	11,294	4,948	86,115	2,767,103	2,199	2,987,530
Travel	37,846	92,203	16,019	2,041	11,011	113,668	98,452	1,380	372,620
Rent	175,211	137,006	75,811	85,144	16,368	170,973	169,160	6,985	836,658
Utilities		2,492				2,169			4,661
Repair & Maintenance	11,375	7,836	3,426	276	509	89,793	20,519	299	134,033
Other Expenses	440,164	352,210	148,047	28,225	25,565	1,292,256	517,540	15,697	2,819,704
Total	<u>953,664</u>	<u>1,793,879</u>	<u>317,604</u>	<u>169,781</u>	<u>103,999</u>	<u>4,825,973</u>	<u>5,503,049</u>	<u>32,162</u>	<u>13,700,111</u>
Equipment & Intangible Assets									
Equipment						21,433	16,635		38,068
Intangible Assets						35,707			35,707
Total						<u>57,140</u>	<u>16,635</u>		<u>73,775</u>
Local Assistance									
From State Sources							2,564,823		2,564,823
Total							<u>2,564,823</u>		<u>2,564,823</u>
Grants									
From State Sources			11,824,214		1,780		774,667	7,750,000	20,350,661
From Federal Sources		4,052,625	4,579,001			35,141,363			43,772,989
Total		<u>4,052,625</u>	<u>16,403,215</u>		<u>1,780</u>	<u>35,141,363</u>	<u>774,667</u>	<u>7,750,000</u>	<u>64,123,650</u>
Benefits & Claims									
Disbursements To Local Govts	1,195,880,124								1,195,880,124
Total	<u>1,195,880,124</u>								<u>1,195,880,124</u>
Transfers									
Accounting Entity Transfers	297,266						100,000	3,165,000	3,562,266
Total	<u>297,266</u>						<u>100,000</u>	<u>3,165,000</u>	<u>3,562,266</u>
Debt Service									
Bonds	2,015,141					40,905,985			42,921,126
Total	<u>2,015,141</u>					<u>40,905,985</u>			<u>42,921,126</u>
Total Expenditures & Transfers-Out	\$ <u>1,201,212,887</u>	\$ <u>7,175,496</u>	\$ <u>17,516,240</u>	\$ <u>1,000,299</u>	\$ <u>222,116</u>	\$ <u>82,744,802</u>	\$ <u>10,076,833</u>	\$ <u>11,037,408</u>	\$ <u>1,330,986,081</u>
EXPENDITURES & TRANSFERS-OUT BY FUND									
General Fund		\$ 1,777,747	\$ 251,482					\$ 3,287,408	\$ 5,316,637
State Special Revenue Fund		423,733	12,381,609			\$ 1,238	\$ 10,076,833	7,750,000	30,633,413
Federal Special Revenue Fund		4,974,016	4,883,149			36,868,100			46,725,265
Enterprise Fund	\$ 2,723,841			\$ 5,273	\$ 222,116	45,875,464			48,826,694
Internal Service Fund	2,608,922			995,026					3,603,948
Investment Trust Fund	1,195,880,124								1,195,880,124
Total Expenditures & Transfers-Out	<u>1,201,212,887</u>	<u>7,175,496</u>	<u>17,516,240</u>	<u>1,000,299</u>	<u>222,116</u>	<u>82,744,802</u>	<u>10,076,833</u>	<u>11,037,408</u>	<u>1,330,986,081</u>
Less: Nonbudgeted Expenditures & Transfers-Out	1,196,583,476			146,062	11,600	923,971	100,075	3,165,000	1,200,930,184
Prior Year Expenditures & Transfers-Out Adjustments	<u>(295,739)</u>	<u>1,133</u>	<u>(811,517)</u>	<u>(145,116)</u>	<u>(15,508)</u>	<u>(91,719)</u>	<u>(54,965)</u>	<u>700</u>	<u>(1,412,731)</u>
Actual Budgeted Expenditures & Transfers-Out	4,925,150	7,174,363	18,327,757	999,353	226,024	81,912,550	10,031,723	7,871,708	131,468,628
Budget Authority	6,241,832	8,122,755	26,561,346	1,211,694	267,781	105,803,628	12,127,167	7,874,084	168,210,287
Unspent Budget Authority	<u>\$ 1,316,682</u>	<u>\$ 948,392</u>	<u>\$ 8,233,589</u>	<u>\$ 212,341</u>	<u>\$ 41,757</u>	<u>\$ 23,891,078</u>	<u>\$ 2,095,444</u>	<u>\$ 2,376</u>	<u>\$ 36,741,659</u>
UNSPENT BUDGET AUTHORITY BY FUND									
General Fund		\$ 103,349	\$ 82,387					\$ 2,376	\$ 188,112
State Special Revenue Fund		115,296	4,853,119	\$ 57,838		\$ 5,762	\$ 2,095,444		7,127,459
Federal Special Revenue Fund		729,747	3,298,083	55,038		19,528,259			23,611,127
Enterprise Fund	\$ 1,091,244			34,150	\$ 41,757	4,357,057			5,524,208
Internal Service Fund	225,438			65,315					290,753
Investment Trust Fund									
Unspent Budget Authority	<u>\$ 1,316,682</u>	<u>\$ 948,392</u>	<u>\$ 8,233,589</u>	<u>\$ 212,341</u>	<u>\$ 41,757</u>	<u>\$ 23,891,078</u>	<u>\$ 2,095,444</u>	<u>\$ 2,376</u>	<u>\$ 36,741,659</u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

DEPARTMENT OF COMMERCE
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

PROGRAM (SUBCLASS) EXPENDITURES & TRANSFERS-OUT	BOARD OF INVESTMENTS	BUSINESS RESOURCES DIVISION	COMMUNITY DEVELOPMENT DIVISION	DIRECTOR/ MANAGEMENT SERVICES	FACILITY FINANCE AUTHORITY	HOUSING DIVISION	MONTANA PROMOTION DIVISION	MONTANA STATE LOTTERY	RESEARCH & COMMERCIALIZATION	TOTAL
Personal Services										
Salaries	\$ 1,560,850	\$ 978,201	\$ 580,995	\$ 686,123	\$ 107,386	\$ 1,241,174	\$ 793,713		\$ 64,092	\$ 6,012,534
Other Compensation	10,300		3,050		4,500	11,100			2,650	31,600
Employee Benefits	355,062	253,047	148,227	157,454	23,522	343,810	219,450		16,482	1,517,054
Personal Services-Other	47,455			(70,272)	(12,732)	21,578				(13,971)
Total	<u>1,973,667</u>	<u>1,231,248</u>	<u>732,272</u>	<u>773,305</u>	<u>122,676</u>	<u>1,617,662</u>	<u>1,013,163</u>		<u>83,224</u>	<u>7,547,217</u>
Operating Expenses										
Other Services	298,190	1,965,502	180,340	44,294	30,158	2,974,431	1,637,964		(19,902)	7,110,977
Supplies & Materials	92,662	181,787	41,180	42,044	5,246	164,925	193,358		2,201	723,403
Communications	39,372	73,829	32,750	24,574	7,165	80,072	2,979,631		2,814	3,240,207
Travel	43,912	135,407	23,778	10,956	10,199	145,960	88,558		6,092	464,862
Rent	176,022	65,524	29,879	33,123	16,005	109,167	64,101		6,365	500,186
Utilities		1,547				12,639				14,186
Repair & Maintenance	4,204	13,926	5,938	3,044	1,143	84,897	16,764		708	130,624
Other Expenses	394,064	727,658	157,389	4,213,998	30,505	852,268	477,436	\$ (4,070,139)	16,693	2,799,872
Total	<u>1,048,426</u>	<u>3,165,180</u>	<u>471,254</u>	<u>4,372,033</u>	<u>100,421</u>	<u>4,424,359</u>	<u>5,457,812</u>	<u>(4,070,139)</u>	<u>14,971</u>	<u>14,984,317</u>
Equipment & Intangible Assets										
Equipment				21,049			6,721			27,770
Total				<u>21,049</u>			<u>6,721</u>			<u>27,770</u>
Local Assistance										
From State Sources							2,433,801			2,433,801
Total							<u>2,433,801</u>			<u>2,433,801</u>
Grants										
From State Sources		150,791	3,044,189		33,880		786,664			4,015,524
From Federal Sources		2,051,391	4,453,059			30,045,776				36,550,226
Total		<u>2,202,182</u>	<u>7,497,248</u>		<u>33,880</u>	<u>30,045,776</u>	<u>786,664</u>			<u>40,565,750</u>
Benefits & Claims										
Disbursements To Local Governments	1,114,876,668									1,114,876,668
Total	<u>1,114,876,668</u>									<u>1,114,876,668</u>
Transfers										
Accounting Entity Transfers		218,941				500,000	100,000		4,850,000	5,668,941
Total		<u>218,941</u>				<u>500,000</u>	<u>100,000</u>		<u>4,850,000</u>	<u>5,668,941</u>
Debt Service										
Bonds	2,872,078					41,539,291				44,411,369
Total	<u>2,872,078</u>					<u>41,539,291</u>				<u>44,411,369</u>
Total Expenditures & Transfers-Out	\$ <u>1,120,770,839</u>	\$ <u>6,817,551</u>	\$ <u>8,700,774</u>	\$ <u>5,166,387</u>	\$ <u>256,977</u>	\$ <u>78,127,088</u>	\$ <u>9,798,161</u>	\$ <u>(4,070,139)</u>	\$ <u>4,948,195</u>	\$ <u>1,230,515,833</u>
EXPENDITURES & TRANSFERS-OUT BY FUND										
General Fund		\$ 2,285,233	\$ 3,373,808	\$ 14,389					\$ 4,970,604	\$ 10,644,034
State Special Revenue Fund		676,861	594,699	31,701			\$ 9,798,161		(22,409)	11,079,013
Federal Special Revenue Fund		3,855,457	4,732,267	36,204		\$ 32,197,609				40,821,537
Enterprise Fund	\$ 3,251,778			4,100,171	\$ 256,977	45,929,479		\$ (4,070,139)		49,468,266
Internal Service Fund	2,642,393			983,922						3,626,315
Investment Trust Fund	1,114,876,668									1,114,876,668
Total Expenditures & Transfers-Out	<u>1,120,770,839</u>	<u>6,817,551</u>	<u>8,700,774</u>	<u>5,166,387</u>	<u>256,977</u>	<u>78,127,088</u>	<u>9,798,161</u>	<u>(4,070,139)</u>	<u>4,948,195</u>	<u>1,230,515,833</u>
Less: Nonbudgeted Expenditures & Transfers-Out	1,114,979,274	558,941		179,426	(12,732)	400,466	100,000	(4,707,481)	1,469,347	1,112,967,241
Prior Year Expenditures & Transfers-Out Adjustments	5,388	(161,096)	(50,110)	3,839,534	(10)	433,756	(220,823)	637,342	(1,491,756)	2,992,225
Actual Budgeted Expenditures & Transfers-Out	5,786,177	6,419,706	8,750,884	1,147,427	269,719	77,292,866	9,918,984		4,970,604	114,556,367
Budget Authority	6,287,150	8,733,373	28,574,320	1,234,703	285,374	101,348,372	11,322,567		4,971,365	162,757,224
Unspent Budget Authority	\$ <u>500,973</u>	\$ <u>2,313,667</u>	\$ <u>19,823,436</u>	\$ <u>87,276</u>	\$ <u>15,655</u>	\$ <u>24,055,506</u>	\$ <u>1,403,583</u>	\$ <u>0</u>	\$ <u>761</u>	\$ <u>48,200,857</u>
UNSPENT BUDGET AUTHORITY BY FUND										
General Fund		\$ 17,919	\$ 7,394						\$ 761	\$ 26,074
State Special Revenue Fund		70,843	16,368,386			\$ 13,000	\$ 1,403,583			17,855,812
Federal Special Revenue Fund		2,224,905	3,447,656	\$ 10,125		21,755,363				27,438,049
Enterprise Fund	\$ 223,203			6,660	\$ 15,655	2,287,143				2,532,661
Internal Service Fund	277,770			70,491						348,261
Unspent Budget Authority	\$ <u>500,973</u>	\$ <u>2,313,667</u>	\$ <u>19,823,436</u>	\$ <u>87,276</u>	\$ <u>15,655</u>	\$ <u>24,055,506</u>	\$ <u>1,403,583</u>	\$ <u>0</u>	\$ <u>761</u>	\$ <u>48,200,857</u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

Department of Commerce

Notes to the Financial Schedules

For the Two Fiscal Years Ended June 30, 2003

1. Summary of Significant Accounting Policies

Basis of Accounting

The department uses the modified accrual basis of accounting, as defined by state accounting policy, for its Governmental fund category (General, State Special Revenue, Federal Special Revenue, and Permanent). In applying the modified accrual basis, the department records:

Revenues when it receives cash or when receipts are measurable and available to pay current period liabilities.

Expenditures for valid obligations when the department incurs the related liability and it is measurable, with the exception of the cost of employees' annual and sick leave. State accounting policy requires the department to record the cost of employees' annual leave and sick leave when used or paid.

The department uses accrual basis accounting for its Proprietary (Enterprise and Internal Service) and Fiduciary (Investment Trust and Agency) fund categories. Under the accrual basis, as defined by state accounting policy, the department records revenues in the accounting period earned, when measurable, and records expenses in the period incurred, when measurable.

Expenditures and expenses may include: entire budgeted service contracts even though the department receives the services in a subsequent fiscal year; goods ordered with a purchase order before fiscal year-end, but not received as of fiscal year-end; and equipment ordered with a purchase order before fiscal year-end.

Basis of Presentation

The financial schedule format is in accordance with the policy of the Legislative Audit Committee. The financial schedules are prepared

Notes to the Financial Schedules

from the transactions posted to the state's accounting system without adjustment.

Governmental Fund Category

General Fund - to account for all financial resources except those required to be accounted for in another fund. General Fund accounts support some of the department's Business Resources Division, Community Development Bureau, Director/Management Services, and Research and Commercialization.

State Special Revenue Fund - to account for proceeds of specific revenue sources (other than private-purpose trusts or major capital projects) that are legally restricted to expenditures for specific purposes. Department Special Revenue Funds include operations of programs funded with assessments paid by fees, research and commercialization technology, and accommodations tax funds.

The Treasure State Endowment Fund, at the end of fiscal year 2001-02 had \$10,679,022 in grant commitments in the Community Development Division that were not recorded on the state's accounting records.

Federal Special Revenue Fund – to account for federal funds received by the department to administer the department's Housing Assistance program, Community Development Block Grants, Forest Service Grants, Workforce Investment Act (WIA) Labor Training, and Small Business Administration programs.

Permanent Fund – to account for financial resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the department's programs. In fiscal year 2000-01, this activity was reported under the Nonexpendable Trust Fund. The department uses a portion of the Permanent Coal Tax Trust Fund.

Proprietary Fund Category

Internal Service Fund - to account for the financing of goods or services provided by one department or agency to other departments

Notes to the Financial Schedules

or agencies of state government or to other governmental entities on a cost-reimbursement basis. Department Internal Service Funds include the Investment Division and Centralized Services Division.

Enterprise Fund - to account for operations (a) financed and operated in a manner similar to private business enterprises, where the Legislature intends that the department finance or recover costs primarily through user charges; or (b) where the Legislature has decided that periodic determination of revenues earned, expenses incurred or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. Department Enterprise Funds include Board of Housing, Board of Investments Industrial Revenue Bonds, and the Facility Finance Authority.

Fiduciary Fund Category

Investment Trust Fund – to account for the external portion of investment pools. The department investment trust funds include Short Term Investment Pool (STIP) investing activity for local governments.

Agency Fund – to account for resources held by the state in a custodial capacity. The department agency funds included consumer affairs and horse racing exotic wagering activity for fiscal 2001-02. There is no activity in this fund in fiscal year 2002-03, due to the reorganization of the department.

2. General Fund Balance (negative balances)

The negative fund balance in the General Fund does not indicate overspent appropriation authority. The department has authority to pay obligations from the statewide General Fund within its appropriation limits. The department expends cash or other assets from the statewide fund when it pays General Fund obligations. The department's outstanding liabilities exceed the assets it has placed in the fund, resulting in negative ending General Fund balances for each of the two fiscal years ended June 30, 2002 and June 30, 2003.

3. Direct Entries to Fund Balance

Direct entries to fund balances in the General, State Special Revenue, Federal Special Revenue, Internal Service, Enterprise,

Notes to the Financial Schedules

Agency, and Permanent funds include entries generated by SABHRS to reflect the flow of resources within individual funds shared by separate agencies.

Department Response

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MONTANA

Department of Commerce

DIRECTOR'S OFFICE
301 S. Park Ave. ★ P.O. Box 200501 ★ Helena, Montana 59620-0501
Phone 406-841-2700 ★ Fax: 406-841-2701 ★ TDD: 406-841-2702 ★ <http://commerce.state.mt.us/>

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DEC 23 2003

LEGISLATIVE AUDIT DIV.

December 22, 2003

Mr. Scott A. Seacat
Legislative Auditor
Legislative Audit Division
Room 160, State Capitol
P.O. Box 201705
Helena, Montana 59620-1705

Dear Mr. Seacat:

We have reviewed the recommendations pertaining to the Department of Commerce's Financial-Compliance Audit for the two fiscal years ended June 30, 2003. Our response is as follows:

RECOMMENDATION #1

We recommend the department monitor to ensure the financial activity in the Research and Commercialization Program is recorded in accordance with state law.

Response:

The department concurs. The department agrees that the Research and Commercialization Program over-accrued expenditures at the end of the fiscal year 2003. The Board enters into contracts with many grantees with a renewal option for an additional year. The over-accrual represents the amount for the second year of these projects. The department should have accrued only funds that were under contract but unexpended at the end of the fiscal year. Procedures will be adopted to assure only current year amounts and not future amounts of contracts are accrued.

RECOMMENDATION #2

We recommend the department:

- A. Establish fees commensurate with costs in accordance with section 17-8-101, MCA; and**
- B. Properly account for financial activity recorded in the Central Services Division Internal Service Fund.**

Response:

A. The department concurs. The Investment Division fund balance will be monitored through fiscal year 2004 to determine the appropriate action that should be taken and the fund balance will be reviewed versus working capital. Centralized Services Division will monitor the working capital balance and take steps to ensure fees are commensurate with costs.

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B. The department concurs. Warrant writer and audit costs have been accounted for properly in FY2004. Systems maintenance funds have been moved out of the PHIT accounts, and placed into a revenue account in Centralized Services Division and will be expended through appropriation authority.

RECOMMENDATION #3

We recommend the department:

- A. Establish controls in the Moderate-Rehabilitation Program to ensure amounts reimbursed to property owners are properly calculated and paid.**
- B. Seek reimbursement for the \$1,117 overpayment.**

Response:

A. The department concurs. The Section 8 Housing Program will create a spreadsheet to calculate the amounts reimbursable to property owners to be used consistently to assure proper calculation.

B. The department concurs. The overpayment has been collected.

RECOMMENDATION #4

We recommend the department continue to improve the implementation of internal controls to ensure subgrantee compliance with federal regulations applicable to the HOME program.

Response:

The department concurs. The HOME program will ensure that future draw requests from subgrantees are either accompanied by copies of support documentation or by the subgrantee's certification that such documentation exists in the subgrantee's program files. The HOME Program Manager will deny draw requests that do not have one of the above forms of support documentation.

My staff and I will be available to discuss the audit and recommendations with the Legislative Audit Committee at its convenience.

Sincerely,



Mark A. Simonich
Director